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CITY OF EVART –  
LOCAL DEVELOPMENT FINANCE AUTHORITY  
OSCEOLA COUNTY, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2008

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## INDEPENDENT AUDITORS' REPORT

December 10, 2008

To the Authority Board  
City of Evart - Local Development Finance Authority  
Evart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Evart - Local Development Finance Authority, Evart, Michigan, a component unit of the City of Evart, Michigan as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Evart - Local Development Finance Authority as of June 30, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

To the Authority Board  
City of Evert - Local Development Finance Authority  
December 10, 2008

The management's discussion and analysis and budgetary comparison listed in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Weinlander Fitzhugh*

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2008**

Our discussion and analysis of the City of Evart - Local Development Finance Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2008.

**Financial Highlights**

The Authority's net assets increased by \$106,292 or 8%. Program revenues were \$28,354 or 8% of total revenues, and general revenues were \$327,168 or 92%.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Evart - Local Development Finance Authority financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Authority's operations in more detail than the Government-wide financial statements by providing information about the Authority's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2008**

**Reporting the Authority as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the Authority's finances is, "Is the Authority better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Authority's net assets as a way to measure the Authority's financial position. The change in net assets provides the reader a tool to assist in determining whether the Authority's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of Authority.

**Reporting the Authority's Most Significant Funds**

*Fund Financial Statements*

The Authority's fund financial statements provide detail information about the most significant funds – not the Authority as a whole. Some funds are required to be established by State law. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue.

*Governmental Funds*

All of the Authority's activities are reported in Governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detail short-term view of the Authority's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Authority's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2008**

**Government-wide Financial Analysis**

The statement of net assets provides the perspective of the Authority as a whole. Exhibit A provides a summary of the Authority's net assets as of June 30, 2008 and 2007:

<b>Exhibit A</b>	Governmental Activities	
	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current and other assets	\$ 618,743	\$ 494,429
Capital assets - net of accumulated depreciation	<u>751,862</u>	<u>770,028</u>
Total assets	<u>1,370,605</u>	<u>1,264,457</u>
<b>Liabilities</b>		
Current liabilities	<u>6,937</u>	<u>7,081</u>
<b>Net Assets</b>		
Invested in property and equipment	751,862	770,028
Restricted	9	9
Unrestricted	<u>611,797</u>	<u>487,339</u>
Total net assets	<u>\$ 1,363,668</u>	<u>\$ 1,257,376</u>

This analysis focuses on net assets. The Authority's net assets were \$1,363,668 at June 30, 2008. Capital assets totaling \$751,862 compares the original costs, less depreciation of the Authority's capital assets. Restricted net assets are reported separately to show legal constraints from debt requirements and legislation that limit the Authority's ability to use those net assets for day-to-day operations.

The \$611,797 in unrestricted net assets of governmental type activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management’s Discussion and Analysis**  
**For the Year Ended June 30, 2008**

The results of this year’s operations for the Authority as a whole are reported in the statement of activities. Exhibit B below shows a summary of the changes in net assets for the years ended June 30, 2008 and 2007.

<b>Exhibit B</b>	<b>Governmental Activities</b>	
	<u>2008</u>	<u>2007</u>
<b>Revenue</b>		
Program revenue:		
Grants and contributions	\$ 28,354	\$ 22,945
General revenue:		
Taxes	253,244	274,853
Rent	24,000	24,000
Interest	21,924	19,521
Other local revenue	<u>28,000</u>	<u>0</u>
Total Revenue	<u>355,522</u>	<u>341,319</u>
<b>Function/Program Expenses</b>		
General government	239,755	234,338
Community promotion	<u>9,475</u>	<u>5,500</u>
Total expenses	<u>249,230</u>	<u>239,838</u>
<b>Change in Net Assets</b>	<u><u>\$ 106,292</u></u>	<u><u>\$ 101,481</u></u>

As reported in the statement of activities, the cost of all of our *Governmental type* activities this year was \$249,230. Certain activities were partially funded from organizations that subsidized certain programs with grants and contributions. We paid for the remaining “public benefit” portion of our governmental activities with \$253,244 in taxes, \$24,000 from incubator building rent \$21,924 in interest and \$28,000 in other local revenue.

The Authority experienced a increase in net assets of \$106,292. The key increase in net assets can be attributed to the stable revenues and costs coupled with the absence of any significant capital projects. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.



**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

**The Authority's Funds**

The Authority uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Authority's overall financial health.

The Authority's governmental funds reported a combined fund balance of \$611,806, which is above last year's total of \$487,348. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2008 and 2007.

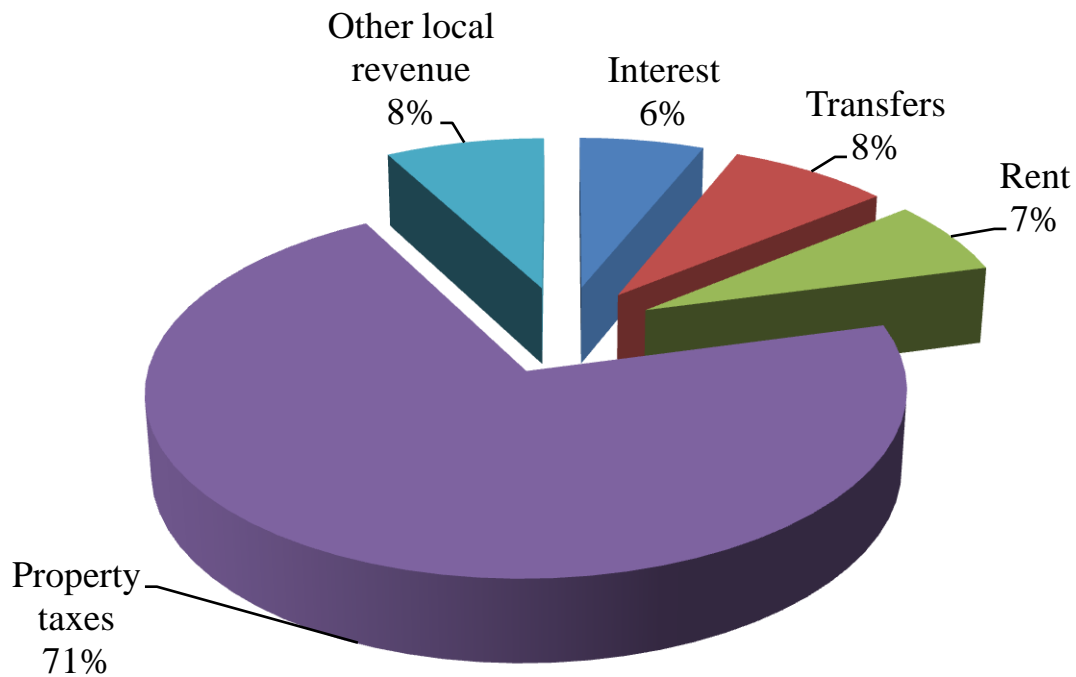
	<u>Fund Balance June 30, 2008</u>	<u>Fund Balance June 30, 2007</u>	<u>Change</u>
General	\$ 611,797	\$ 487,339	\$ 124,458
Debt Service	<u>9</u>	<u>9</u>	<u>0</u>
Total	<u>\$ 611,806</u>	<u>\$ 487,348</u>	<u>\$ 124,458</u>

- Our General Fund increased \$124,458. The increase is mainly due to stable revenues and expenses coupled with a delay of building and improvement projects.
- Our Debt Service Fund had no change this year.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

As the graph below illustrates, the largest portion of the Authority's revenue came from property taxes.

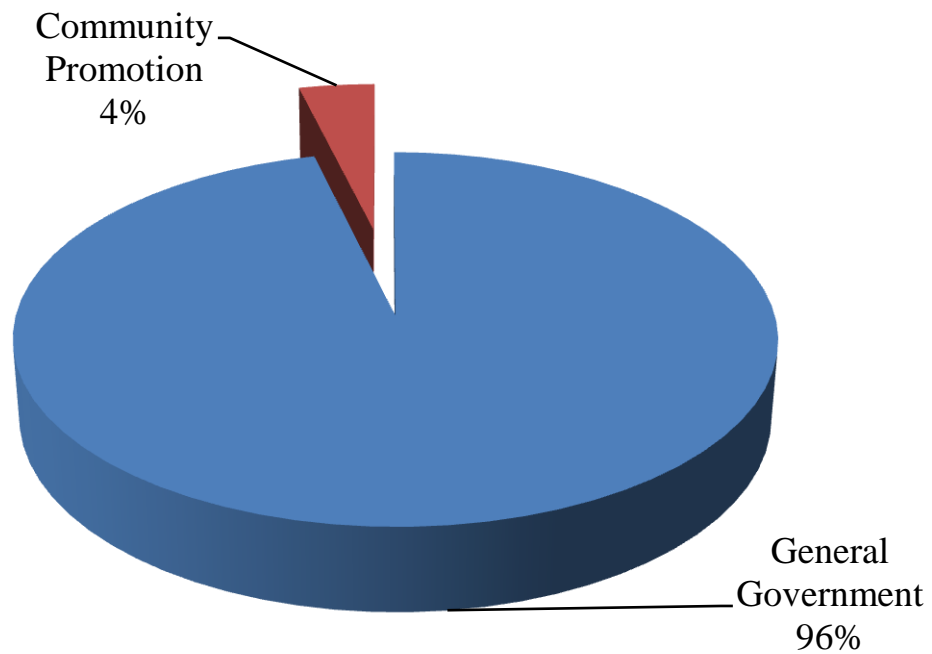
**Sources of Revenues**



**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

The graph below illustrates, 4% of the Authority's resources are spent on community promotion, while 96% is spent for general government and expenses such as administrative costs, including occupancy costs and organizing events.

**Expenditures**



**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

The chart below compares current year expenditures with prior year.

	<u>2008</u>	<u>2007</u>
<i>Expenditures by Function</i>		
General government	\$ 221,589	\$ 215,772
Community promotion	<u>9,475</u>	<u>5,500</u>
 Total	 <u><u>\$ 231,064</u></u>	 <u><u>\$ 221,272</u></u>

Expenditures have increased by \$9,792, or 5%, from than the prior year mostly due to increased spending on personnel costs and community projects.

**General Fund Budgetary Highlights**

Over the course of the year, the Authority revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Authority's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. There were no changes to the General Fund original budget.

The differences between the budget and the final actual amounts are as follows:

- Actual revenues exceeded budgeted revenues by \$18,168. The difference is due to additional interest revenue earned during the year and the signing of an option to sell land. The additional revenue was offset by lower than expected property tax revenue.
- Actual other financing sources were lower than budgeted revenues by \$997,646 due to the selling of bonds being delayed to a future year.
- Actual expenditures and budgeted expenditures were not significantly different
- Actual other financing uses were lower than budgeted by \$1,098,000 due to the delay of capital projects to a future year.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

**Capital Assets**

At June 30, 2008, the Authority had a net investment of \$751,862 invested in a broad range of capital assets, including land, buildings, furniture and equipment. There were no additions in the year ending June 30, 2008.

	<u>2008</u>	<u>2007</u>
Land	\$ 338,300	\$ 338,300
Buildings and improvements	566,145	566,145
Equipment	4,438	4,438
Furniture and fixtures	<u>9,000</u>	<u>9,000</u>
 Total capital assets	 917,883	 917,883
 Less accumulated depreciation	 <u>166,021</u>	 <u>147,855</u>
 Net capital assets	 <u><u>\$ 751,862</u></u>	 <u><u>\$ 770,028</u></u>

We do not anticipate any significant capital additions in the upcoming fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

**Factors Expected to Have an Effect on Future Operations**

We expect to see an increase in property tax revenue next year as the tax base continues to be adjusted upward. We will adjust our budget for any significant revenue changes.

**Requests For Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the City of Evart - Local Development Finance Authority. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Evart - Local Development Finance Authority  
127 N. River Street  
Evart, MI 49631

# CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

## Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 515,700
Receivables:	
Accounts receivable	24,843
Due from other governmental units	78,200
Capital assets less accumulated depreciation of \$166,021	<u>751,862</u>
 Total assets	 <u>1,370,605</u>
 <u>Liabilities</u>	
Accounts payable	1,596
Accrued payroll and other liabilities	<u>5,341</u>
Total liabilities	<u>6,937</u>
 <u>Net Assets</u>	
Investment in capital assets	751,862
Restricted for debt service	9
Unrestricted	<u>611,797</u>
 Total net assets	 <u><u>\$ 1,363,668</u></u>

See accompanying notes to financial statements

# CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

## Statement of Activities For the Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Governmental Activities</u>
		<u>Operating Grants/ Contributions</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
Governmental activities:			
General government	\$ 239,755	\$ 28,354	\$ (211,401)
Community promotion	9,475	0	(9,475)
Total governmental activities	<u>\$ 249,230</u>	<u>\$ 28,354</u>	<u>(220,876)</u>
General revenues:			
Property taxes, levied for general purposes			253,244
Rent			24,000
Interest			21,924
Other local income			<u>28,000</u>
			<u>327,168</u>
Change in net assets			106,292
Net assets - beginning of year			<u>1,257,376</u>
Net assets - end of year			<u>\$ 1,363,668</u>

See accompanying notes to financial statements

# CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

## Governmental Funds

### Balance Sheet

June 30, 2008

	General	Other Nonmajor Governmental Fund (1992 Local Development)	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 515,693	\$ 7	\$ 515,700
Receivables:			
Accounts receivable	23,048	0	23,048
Interest receivable	1,793	2	1,795
Due from Downtown Development Authority	78,200	0	78,200
	<u>618,734</u>	<u>9</u>	<u>618,743</u>
Total Assets	<u>\$ 618,734</u>	<u>\$ 9</u>	<u>\$ 618,743</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
<u>Liabilities</u>			
Accounts payable	\$ 1,596	\$ 0	\$ 1,596
Accrued payroll and other liabilities	5,341	0	5,341
	<u>6,937</u>	<u>0</u>	<u>6,937</u>
Total liabilities	<u>6,937</u>	<u>0</u>	<u>6,937</u>
 <u>Fund Balance</u>			
Reserved for debt service	0	9	9
Unreserved:			
Undesignated	611,797	0	611,797
	<u>611,797</u>	<u>9</u>	<u>611,806</u>
Total fund balance	<u>611,797</u>	<u>9</u>	<u>611,806</u>
Total Liabilities and Fund Balance	<u>\$ 618,734</u>	<u>\$ 9</u>	<u>\$ 618,743</u>

See accompanying notes to financial statements



CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
June 30, 2008

Total fund balances - governmental funds	\$ 611,806
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	917,883
Accumulated depreciation	<u>(166,021)</u>
 Total net assets - governmental activities	 <u><u>\$ 1,363,668</u></u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2008

	General	Other Nonmajor Governmental Fund (1992 Local Development)	Totals
<u>Revenues</u>			
Property taxes	\$ 253,244	\$ 0	\$ 253,244
Rent	24,000	0	24,000
Interest	21,924	0	21,924
Other local revenue	28,000	0	28,000
Total revenues	327,168	0	327,168
<u>Expenditures</u>			
Operating:			
General government	221,589	0	221,589
Community promotion	9,475	0	9,475
Total expenditures	231,064	0	231,064
Excess of revenues over expenditures	96,104	0	96,104
<u>Other Financing Sources</u>			
Operating transfers from other governmental units	28,354	0	28,354
Excess of revenues and other financing sources over expenditures	124,458	0	124,458
Fund balance - beginning of year	487,339	9	487,348
Fund balance - end of year	\$ 611,797	\$ 9	\$ 611,806

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2008

Net change in fund balance - total governmental funds	\$ 124,458
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	<u>(18,166)</u>
Change in net assets of governmental activities	<u><u>\$ 106,292</u></u>

See accompanying notes to financial statements

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Evart - Local Development Finance Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Evart - Local Development Finance Authority:

**Reporting Entity**

On December 17, 1990, the City Council of the City of Evart, Osceola County, Michigan, established a Local Development Finance Authority (Authority) to provide necessary infrastructure services to the companies within the industrial park and to create a positive surrounding, and to promote and attract additional business growth within the Local Development Finance Authority boundaries. The life of the Authority is fifteen years, after which time all assets acquired revert back to the City of Evart. The agreement was amended June 10, 1993, to extend the life of the Authority to the year 2023. The Authority is a component unit of the City of Evart.

The Authority is governed by a ten-member appointed board.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2008

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

**General Fund** – This fund is the general operating fund of the Authority. It is used to account for all financial transactions except those required to be accounted for in another fund.

Additionally, the Authority reports the following nonmajor governmental fund:

**Debt Service Fund** – This fund is used to account for the accumulated resources for, and the payment of, general long-term principal, interest and related costs.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2008

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Assets or Equity**

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets, which include land, buildings, furniture and fixtures are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the December 10, 2008 of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, furniture and fixtures are depreciated using the straight-line method over the following useful lives:

Buildings	40 Years
Building improvements	20 Years
Equipment	5 Years
Furniture and fixtures	20 Years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2008

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the December 10, 2008 of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for the General Fund prior to the expenditure of monies in a fiscal year.

1. The Authority's Project Consultant submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. Budgeted amounts are as originally adopted, or as amended, by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
3. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund is presented as Required Supplemental Information



CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2008

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the December 10, 2008 of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

At year-end, the Authority's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and cash equivalents	<u>\$ 515,700</u>

Custodial Credit Risk- Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2008, \$363,836 of the Authority's bank balance of \$516,218 was exposed to custodial credit risk.

The Authority's investment policy does not identify interest rate risk, foreign currency risk or concentration credit risk.

The Authority has no investments as of June 30, 2008.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity of the Authority for the current year was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 338,300	\$ 0	\$ 0	\$ 338,300
Capital assets being depreciated:				
Buildings	441,145	0	0	441,145
Building improvements	125,000	0	0	125,000
Equipment	4,438	0	0	4,438
Furniture and fixtures	9,000	0	0	9,000
Subtotal	579,583	0	0	579,583
Less accumulated depreciation for:				
Buildings	99,258	11,028	0	110,286
Building improvements	37,500	6,250	0	43,750
Equipment	2,097	888	0	2,985
Furniture and fixtures	9,000	0	0	9,000
Subtotal	147,855	18,166	0	166,021
Net capital assets being depreciated	431,728	(18,166)	0	413,562
Governmental Activities, Total				
Capital Assets-Net of Depreciation	\$ 770,028	\$ (18,166)	\$ 0	\$ 751,862

Depreciation expense was charged to programs of the Authority as follows:

Governmental Activities:	
General government	<u>18,166</u>

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2008

**NOTE 5– EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**Defined Benefit Pension Plan (Michigan Municipal Employees’ Retirement System)**

**Plan Description** – The Authority participates in the Michigan Municipal Employees’ Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at:

State of Michigan  
Office of Retirement Services  
P.O. Box 30171  
Lansing, MI 48909-7671

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority’s competitive bargaining units and requires a contribution of 11 percent of gross wages.

**Annual Pension Costs** – For year ended June 30, 2008, the Authority’s annual pension cost of \$18,942 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal cost method. Significant actuarial assumptions used include: (i) an 8 percent investment rate of return; (ii) projected salary increases of 4.5 percent per year; and (iii) 3 to 4 percent per year cost of living adjustments. Both are determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2008

**NOTE 5 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)**

Three year trend information as of December 31, 2007 follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 10,443	\$ 8,922	\$ 9,689
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	198,558	219,943	243,640
Actuarial accrued liability	240,807	270,051	284,401
Unfunded (overfunded) AAL	42,249	50,108	40,761
Funded ratio	82%	81%	86%
Covered payroll	73,509	79,238	80,927
UAAL as a percentage of covered payroll	57%	63%	50%

**NOTE 6 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 7 - OPERATING LEASES**

The Authority leases the incubator building to MacLellan Integrated Services, Inc. under an operating lease in the amount of \$2,000 per month.

The lease has expired and continues on a month to month basis. The Authority has agreed to provide the lessee six months notice before ending the arrangement.

**NOTE 8 - ECONOMIC DEPENDENCY**

The Authority received approximately 85% of their property tax revenue from one taxpayer. Due to the significance of this revenue source to the Authority, the Authority is considered to be economically dependent.

# CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

## Required Supplemental Information

### Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance
<u>Revenues</u>				
Property taxes	\$ 275,000	\$ 275,000	\$ 253,244	\$ (21,756)
Rent	24,000	24,000	24,000	0
Interest	10,000	10,000	21,924	11,924
Other local revenue	0	0	28,000	28,000
	<u>309,000</u>	<u>309,000</u>	<u>327,168</u>	<u>18,168</u>
<u>Expenditures</u>				
General government	225,000	225,000	221,589	3,411
Community promotion	12,000	12,000	9,475	2,525
	<u>237,000</u>	<u>237,000</u>	<u>231,064</u>	<u>5,936</u>
Excess of revenues over expenditures	<u>72,000</u>	<u>72,000</u>	<u>96,104</u>	<u>24,104</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from issuance of bonds	1,000,000	1,000,000	0	(1,000,000)
Operating transfers from other governmental units	26,000	26,000	28,354	2,354
Transfers to other funds	(1,098,000)	(1,098,000)	0	1,098,000
Total other financing sources (uses)	<u>(72,000)</u>	<u>(72,000)</u>	<u>28,354</u>	<u>100,354</u>
Excess of revenues and other financing sources (uses) over expenditures	0	0	124,458	124,458
Fund balance - beginning of year	<u>487,339</u>	<u>487,339</u>	<u>487,339</u>	<u>487,339</u>
Fund balance - end of year	<u>\$ 487,339</u>	<u>\$ 487,339</u>	<u>\$ 611,797</u>	<u>\$ 611,797</u>



# WEINLANDER FITZHUGH

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& CONSULTANTS

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PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

December 10, 2008

To the Authority Board  
City of Evert - Local Development Finance Authority  
Evert, Michigan

In planning and performing our audit of the financial statements of City of Evert - Local Development Finance Authority (Authority) as of and for the year ended June 30, 2008, in accordance with U.S. generally accepted auditing standards. We considered City of Evert - Local Development Finance Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency and another deficiency that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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# WEINLANDER FITZHUGH

To the Authority Board  
City of Ewart - Local Development Finance Authority  
December 10, 2008  
Page 2

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We consider the following deficiency to be a significant deficiency:

## **Financial Reporting**

As part of our consideration of the internal control over financial reporting, we as auditors are not allowed to be considered to be part of City of Ewart - Local Development Finance Authority's internal controls. In taking this required position, we must consider whether the Authority has the ability, on its own, to monitor and report financial activity in accordance with our professional standards without auditor involvement.

The Authority uses accounting software as a management tool to monitor the financial status of the Authority, to facilitate the preparation and amendment of budgets and to compare budgeted amounts to actual results. In addition, the Authority demonstrates the ability to report fund level activities and report on certain fund level note disclosures. Due to the complexity of the required government wide financial statements and related note disclosures in accordance with GASB 34, the Authority does not maintain personnel who can report in accordance with U.S. generally accepted accounting principles without auditor involvement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We consider the following significant deficiency to be a material weakness:

## **Uniform Chart of Accounts**

As required by the Michigan Department of Treasury, the Authority should be using the Uniform Chart of Accounts as required by MCL 141.421. Currently the Authority is using a chart of accounts assigned by the accountant. We recommend that the Authority contact the accountant and communicate this requirement.

This report is intended solely for the information and use of the Authority Board, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Weinlander Fitzhugh*





# WEINLANDER FITZHUGH

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ROBERT J. DUYCK, CPA

December 10, 2008

To the Authority Board  
City of Ewart - Local Development Finance Authority  
City of Ewart, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of City of Ewart - Local Development Finance Authority for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 9, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on June 9, 2008.

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# WEINLANDER FITZHUGH

To the Authority Board  
City of Evert - Local Development Finance Authority  
December 10, 2008  
Page 2

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Evert - Local Development Finance Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of depreciation is based on estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.



# WEINLANDER FITZHUGH

To the Authority Board  
City of Evert - Local Development Finance Authority  
December 10, 2008  
Page 3

## *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

## *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 10, 2008.

## *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



## WEINLANDER FITZHUGH

To the Authority Board  
City of Ewart - Local Development Finance Authority  
December 10, 2008  
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### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Authority Board, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Weinlander Fitzhugh*